

**Before the
Public Service Commission of South Carolina**

Docket No. 2010-4-G

**Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies
of
Piedmont Natural Gas Company, Inc.**

**Testimony and Exhibits
of
Robert L. Thornton**

**On Behalf Of
Piedmont Natural Gas Company, Inc.**



June 10, 2010

1 **Q. Please state your name and business address.**

2 A. My name is Robert L. Thornton. My business address is 4720 Piedmont Row
3 Drive, Charlotte, North Carolina.

4 **Q. What is your position and what are your responsibilities with Piedmont**
5 **Natural Gas Company ("Piedmont")?**

6 A. I am employed as Director of Gas and Regulatory Accounting.

7 **Q. Please briefly describe your education and experience.**

8 A. I received a B.S. degree from The College of Charleston in 1984. In 1985, I
9 was employed by Duke Power Company as a staff accountant. In 1990 I was
10 employed by Ingersoll-Dresser Pump Company as Controller. In 1994, I was
11 employed by Public Service Company of North Carolina, Inc. ("PSNC"), as a
12 Senior Financial Accountant and was promoted to Director – Investor Relations
13 and Financial Projects in 1998. After PSNC was acquired by SCANA
14 Corporation, I was employed by Cox Technologies in 2000 as Controller and
15 Assistant Treasurer. In 2004, I was employed by HSBC Mortgage Corp. as
16 Manager of Regulatory and Investor Reporting. I was employed by Piedmont
17 Natural Gas Company, Inc. ("Piedmont") in 2007 as Manager of Gas
18 Accounting. I was promoted to Director of Gas and Regulatory Accounting in
19 February 2008.

20 **Q. Please describe your responsibilities as Director of Gas and Regulatory**
21 **Accounting.**

22 A. My responsibilities include: recording the cost of gas on Piedmont's books,
23 maintaining a proper match of revenues and cost of gas in Piedmont's income

1 statements, recording Piedmont's margin in accordance with regulatory
2 requirements in each of the three state jurisdictions in which Piedmont
3 operates, verifying volumes and prices on all invoices relating to the purchase
4 and transportation of natural gas, and recording gas inventory accounts and
5 deferred accounts. I am also responsible for the middle office functions related
6 to the experimental hedging program implemented in South Carolina pursuant
7 to Commission Order No. 2002-223 dated March 26, 2002.

8 **Q. Have you previously testified before this Commission or any other**
9 **regulatory authority?**

10 A. Yes. I have previously testified before the Public Service Commission of South
11 Carolina and the North Carolina Utilities Commission on several occasions.

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. The purpose of my testimony in this proceeding is to report to the Commission
14 Piedmont's end-of-period balances in and accounting for its deferred gas costs
15 accounts in order to permit the Commission to determine that Piedmont's true-
16 up procedures for the review period have resulted in a properly stated cost of
17 gas and that Piedmont's gas costs are properly recorded in compliance with
18 Piedmont's Gas Cost Recovery Mechanism and Hedging Plan. My testimony
19 also addresses several changes in accounting methodology that are reflected in
20 the deferred gas cost account balance reported in my testimony.

1 **Q. Did Piedmont request any changes to the accounting methodology related**
2 **to the calculation of lost and unaccounted for volumes reflected in gas cost**
3 **account balances reflected in your testimony?**

4 A. Yes. On October 15, 2009, and as amended on February 18, 2010, in Docket
5 No. 2009-435-G, the Company filed an application for approval of a change in
6 methodology by which the Company calculates and records lost and
7 unaccounted ("LAUF") adjustments to its gas costs. In addition, the Company
8 requested Commission approval of the inclusion of unbilled volumes in its
9 commodity and demand gas cost true-up calculations. The Commission
10 approved the application on March 30, 2010 with an effective date as of
11 October 1, 2009 in order to synchronize with the Company's last annual true-up
12 calculation.

13 **Q. Why was this change in methodology requested?**

14 A. The previous methodology for the LAUF annual true-up compares the
15 aggregate LAUF Adjustments contained in the prior year's monthly gas cost
16 deferred account reports to the LAUF quantities approved in the Company's
17 last general rate proceeding. This methodology has the effect of "truing-up" the
18 Company's LAUF adjustments to its rate case quantities, but it does not result
19 in an accurate calculation of the actual LAUF quantities experienced by the
20 Company during the prior 12 months. Inasmuch as the actual LAUF quantities
21 for any given year could be greater or smaller than the "trued-up" annual

1 quantities derived from the Company's historic process, the probability exists
2 that customers are paying either too little or too much for LAUF quantities
3 during any given period.

4 To avoid this outcome, the new methodology compares the actual quantities of
5 gas purchased by the Company to the actual quantities of gas sold to customers.

6 By making this comparison, the Company can determine the exact amount of
7 LAUF quantities experienced during any given period. Applying this
8 methodology to the Company's gas cost deferred account on a monthly basis
9 results in a more accurate LAUF adjustment and also eliminates the need for an
10 annual LAUF true-up because the quantities calculated in its monthly reports
11 reflect its actual LAUF experience.

12 **Q. Can you please explain the reason for the methodology change to include**
13 **unbilled volumes in the commodity true-up and demand true-up**
14 **mechanisms?**

15 A. Previously, the volumes used in the calculation of the commodity true-up and
16 demand true-up mechanisms did not include unbilled revenues. In order to
17 achieve a better matching of gas cost collections versus actual gas costs in the
18 month that they occur, the Company proposed that the Commission approve the
19 inclusion of unbilled revenues in both the commodity and demand gas cost
20 true-up calculations.

21 To further explain, gas costs are incurred and recorded to the Company's

1 accounting records over a period from the first day of the month until the last
2 day of the month. Revenues, however, are calculated on a cycle-billing basis,
3 which means that at the end of the month there are volumes that have been used
4 by the Company's customers but not yet billed by the Company. Therefore, the
5 revenues for a month do not properly match the gas costs for the month. In
6 order to accomplish the matching principle, the Company records unbilled
7 revenues and volumes to its accounting records at the end of each month. As
8 both the commodity and demand gas cost true-ups use volumes to compute the
9 amounts collected, it is only proper that unbilled volumes be included in these
10 true-up mechanisms. As a result of the change in methodology to the LAUF
11 and commodity and demand gas cost true-ups, the Company made a one-time
12 adjustment, including interest, in March 2010 of \$3,176,255 as a credit to its
13 gas cost deferred account for the period October 2009 through February 2010.
14 The commodity and demand gas cost true-up calculations for the month of
15 March 2010 were completed in accordance with the new methodology.

16 **Q. Were there any other significant accounting methodology changes made to**
17 **the Deferred Account No. 253.04?**

18 A. Yes. As Ordered by the Commission in Order No. 2009-579 under Docket No.
19 2009-4-G, effective September 1, 2009, the interest rate applied to the deferred
20 account has changed. The Company and the Office of Regulatory Staff
21 ("ORS") agreed that the interest rate used to calculate the under- and over-

1 collection balances will be the rate of interest as of the first day of each month
2 for 10-year United States Government Treasury Bills, plus an all-in spread of
3 65 basis points (.65 percentage points). Additionally, interest will not accrue
4 on under- and over-collection balances which exceed \$20 million in the
5 deferred account.

6 **Q. Has the Office of Regulatory Staff reviewed Piedmont's accounting for its**
7 **cost of gas for the review period in this proceeding?**

8 A. Yes. The Commission has previously ordered the Company to maintain an
9 account reflecting its gas costs each month, the amount of gas costs recovered
10 each month, and amounts deferred each month. The audit staff of the ORS has
11 conducted a detailed audit and review of the review period activity in that
12 account, as well as the detailed data supporting the accounting entries to that
13 account. A summary of the review period activity in that account is attached
14 hereto as Exhibit __ (RLT-1).

15 **Q. Does the Company also maintain a hedging deferred account?**

16 A. Yes. Effective April 1, 2002, Piedmont implemented an experimental natural
17 gas hedging program pursuant to Commission Order No. 2002-223. Pursuant
18 to this program, Piedmont maintains a Hedging Deferred Account in which it
19 records the results of its hedging activities undertaken in accordance with its
20 hedging plan. The audit staff of the Office of Regulatory Staff has also
21 conducted a detailed review of the activity in this account and the detailed

1 accounting data supporting that activity. A summary of the review period
2 activity in Piedmont's Hedging Deferred Account is attached hereto as
3 Exhibit__(RLT-2).

4 **Q. Does this conclude your testimony?**

5 A. Yes.

EXHIBIT__(RLT-1)

Piedmont Natural Gas Co., Inc. - South Carolina
Gas Cost Deferred Account Activity
Annual Prudence Review - Docket No. 2010-4-G
12 Months Ended March 31, 2010
Debits (Credits)

Exhibit (RLT-1)

Reporting Month ==>	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	Totals
Gas Flow Month ==>	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	
Beginning Balance	25,556,249.31	26,239,581.32	24,077,243.54	26,108,571.89	27,355,977.05	29,749,538.00	26,633,165.42	27,488,069.62	24,956,711.75	18,751,097.14	12,276,195.14	6,437,813.58	
Billed vs. Filed (Commodity) TU	(1,576,470.53)	(847,413.95)	(659,530.46)	(505,267.75)	(653,881.17)	(1,030,101.58)	(1,397,092.26)	(2,395,667.52)	(4,107,268.95)	(2,101,346.26)	(2,579,160.09)	(201,043.21)	(18,354,243.73)
Demand True-Up	(228,383.59)	794,840.30	1,108,080.20	1,204,716.01	1,217,046.31	1,177,238.29	1,101,317.15	461,770.57	(751,305.81)	(3,154,495.65)	(2,782,900.02)	(734,518.12)	(566,594.56)
Negotiated Losses	92,740.21	67,960.64	94,689.56	92,447.75	83,653.31	112,152.30	111,356.60	161,845.14	160,040.55	129,600.53	142,004.99	131,681.92	1,380,173.50
Capacity Release Credits	(503,939.30)	(167,315.65)	(163,430.32)	(165,472.92)	(163,404.21)	(155,258.61)	(99,884.77)	(1,796,760.26)	(109,411.03)	(132,515.08)	(85,799.54)	(100,389.44)	(3,643,581.05)
SC Portion of Off System Sales Revenue	(621,235.92)	(1,340,520.00)	(1,632,187.78)	(1,235,336.58)	(1,843,443.14)	(1,872,500.00)	(1,988,866.17)	(1,235,446.17)	(3,562,468.65)	(2,155,016.19)	(2,645,946.45)	(907,774.37)	(21,040,741.42)
SC Portion of Off System Sales Costs	612,065.31	1,256,428.59	1,521,108.84	1,200,794.53	1,710,520.80	1,750,410.64	1,852,618.34	1,190,436.64	3,262,229.32	1,948,314.98	2,477,169.74	887,513.36	19,669,611.09
WNA (includes adjustment)	307.85	49.83	26.24	396.83	(1,006.85)	2.51	0.07	(2,025.49)	148,671.96	(1,584,580.65)	(668,774.23)	(1,640,311.80)	(3,947,243.73)
LAUF	-	-	-	-	-	(346,071.00)	-	-	-	-	-	-	(346,071.00)
SC - Uncollectibles	81,899.06	179,271.01	106,901.66	128,686.49	81,553.98	37,640.05	9,097.86	(45,362.93)	(4,681.47)	(3,977.04)	3,609.41	15,100.13	589,718.21
Supplier Refunds	-	-	(1,651.31)	-	(59,678.97)	-	(15,877.34)	-	(208.90)	(39.15)	-	-	(77,455.67)
Monthly Hedging Gain (Loss) Transfer	2,675,717.09	(2,251,969.26)	1,711,372.11	470,956.03	1,856,127.52	(2,855,868.51)	1,236,476.95	1,056,655.51	(1,315,944.96)	516,825.59	468,372.67	1,868,063.47	5,435,784.21
Other Adjustments ^(A)	-	-	-	-	-	-	(11,575.56)	(0.01)	-	7,338.38	-	(3,176,225.14)	(3,180,462.33)
Ending Balance Before Interest	26,088,949.49	23,930,912.93	25,962,622.28	27,200,492.28	29,583,464.63	26,567,182.09	27,430,736.29	24,892,495.08	18,676,363.81	12,221,206.40	6,404,771.62	2,579,910.38	
Interest	150,631.83	146,330.61	145,949.61	155,484.77	166,073.37	65,983.33	67,333.33	64,216.67	74,733.33	54,988.74	33,041.96	16,859.39	1,141,626.94
Ending Balance (Actuals only)	26,239,581.32	24,077,243.54	26,108,571.89	27,355,977.05	29,749,538.00	26,633,165.42	27,498,069.62	24,956,711.75	18,751,097.14	12,276,195.14	6,437,813.58	2,596,769.77	
Monthly Interest Rate	7.000%	7.000%	7.000%	7.000%	7.000%	7.000%	4.040%	3.853%	4.484%	4.261%	4.245%	4.487%	

(A) Miscellaneous-MGT Cap Rel. swap with TN from 10/08
Rounding (11,575.56)
Telco Demand Reclassification from TN (0.01)
Change in True Up Methodology 7,338.38
(3,176,225.14)
(3,180,462.33)

EXHIBIT__(RLT-2)

Piedmont Natural Gas Company, Inc. - South Carolina
Hedging Account Activity
Annual Prudence Review - Docket No. 2010-4-G
12 Months Ended March 31, 2010
Debits (Credits)

Exhibit__(RLT-2)

	Beginning Balance	Net Options Premium	Fees 1	Margin Requirement (P&L Cash Act)	Consultant Fees	Proceeds from positions	Fees 2	Interest from brokerage acct.	Other Monthly Fee	Monthly Gain / Loss Transfer
Apr-09	\$ -	-	-	905,341.00	395.25	1,771,030.00	-	(1,071.50)	22.34	2,675,717.09
May-09	\$ -	-	-	(3,818,171.00)	869.55	1,564,330.00	1,643.00	(661.81)	21.00	(2,251,969.26)
Jun-09	\$ -	-	-	276,968.08	711.45	1,434,240.00	-	(568.42)	21.00	1,711,372.11
Jul-09	\$ -	(450.00)	279.00	(889,765.08)	790.50	1,359,160.00	1,364.00	(443.39)	21.00	470,956.03
Aug-09	\$ -	-	-	143,560.00	790.50	1,710,940.00	1,426.00	(609.98)	21.00	1,856,127.52
Sep-09	\$ -	-	-	(3,711,649.00)	790.50	854,420.00	1,054.00	(506.41)	22.40	(2,855,868.51)
Oct-09	\$ -	-	-	(25,425.00)	790.50	1,259,760.00	1,643.00	(313.95)	22.40	1,236,476.95
Nov-09	\$ -	6,600.00	31.00	138,584.00	790.50	908,230.00	1,519.00	(121.39)	22.40	1,055,655.51
Dec-09	\$ -	105,200.00	604.50	(1,533,917.00)	790.50	111,100.00	341.00	(86.36)	22.40	(1,315,944.96)
Jan-10	\$ -	70,680.00	418.50	178,813.00	790.50	265,100.00	1,054.00	(54.73)	24.32	516,825.59
Feb-10	\$ -	98,550.00	418.50	(230,631.00)	790.50	598,260.00	1,023.00	(62.65)	24.32	468,372.67
Mar-10	\$ -	351,970.00	1,999.50	761,688.00	790.50	750,960.00	744.00	(88.53)	-	1,868,063.47
	Activity Totals	632,550.00	3,751.00	(7,804,604.00)	9,090.75	12,587,530.00	11,811.00	(4,589.12)	244.58	5,435,784.21

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached documents are being served this date via email and UPS Overnight (5 copies) upon:

Jeffrey M. Nelson
Office of Regulatory Staff
1401 Main Street
Suite 900
Columbia, South Carolina 29201
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And that a copy of the attached documents are being served this date via email and U.S. Mail upon:

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This the 10th day of June, 2010.

s/ Scott M. Tyler
Scott M. Tyler